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Creating an environment at the national and international levels conducive to generating full and productive employment and decent work for all, and its impact on sustainable development

Creating an environment at the national and international levels conducive to generating full and productive employment and decent work for all, and its impact on sustainable development

Report of the Secretary-General

Summary

At the heart of the United Nations development agenda endorsed at the 2005 World Summit stands the promise to reduce poverty and to enhance equity and social integration. Recognizing the crucial role of employment to that end, leaders resolved "to make the goals of full and productive employment and decent work for all a central objective of [their] relevant national and international policies".

In the context of that commitment, the present report addresses the key aspects of the structural challenges of employment creation. It argues that the achievement of the commitments made by world leaders requires the reconciliation of the current focus on economic growth with social and environmental outcomes. To that end, it places employment at the centre of economic, social and environmental agendas and contains recommendations in all three areas.

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I. Introduction

1. At about 192 million, the number of people unemployed worldwide climbed to new heights in 2005. Even more striking, the extreme working poor are nearly three times as many as the global unemployed, and 50 per cent of the global labour force earns $2 a day or less in per capita terms, for themselves and their families — the same number as 10 years ago. The world, in short, is facing a structural challenge for job creation, one that growth alone appears incapable of resolving.

2. Employment per se is not sufficient to attain the Millennium Development Goals and the United Nations development agenda if it does not generate sufficient income for individuals and households to move out of poverty, or if work is under precarious and hazardous conditions. Greater attention, therefore, needs to be paid to decent work, defined as "opportunities for men and women to obtain productive work, in conditions of freedom, equity, security and human dignity".[1] The centrality of decent work derives, of course, from the centrality of work to people's lives. Work is where the "economic" dimension of people's lives meets the "social". Decent work is central not only as a source of income, but also as a condition for people to live a self-determined life, and to participate fully as citizens in their communities. As such it facilitates social integration and social cohesion. It is also essential for the long-term recovery of countries emerging from conflict.

3. Recognizing the crucial role of employment for poverty reduction, gender equality, women's empowerment and social integration, leaders at the World Summit in September 2005 resolved "to make the goals of full and productive employment and decent work for all a central objective of [their] relevant national and international policies".[2] This places a great responsibility on individual Governments and the international community, including the multilateral system.

4. The dual challenge is the creation of new productive jobs and the improvement of existing ones. In recent years, however, the employment content of growth seems to have weakened, while the effective supply of labour has increased owing to external opening and the growing participation of developing countries in the world economy, in combination with continued high fertility rates in many developing countries and a rise in participation rates of women. Consequently, an increasing number of jobs has to be created to absorb the expanding labour force, while, at the same time, higher rates of growth are now needed to generate the same rates of job growth than was the case 15 years ago. Policies are therefore needed that focus both on increasing growth, and increasing its employment content.

5. Globalization and technological change are exposing increasing shares of national economies to intense competition that requires flexible labour markets in order to allow labour to relocate between firms, sectors or even regions. Although, from a global perspective, it is likely that "off-shoring" (i.e. the trend to increasingly relocate labour-intensive (and low-skilled) parts of the production process from developed to developing countries) creates more jobs, in the process it leads to labour displacement in the affected countries. Global competitive pressure has in many instances also led to an emphasis on greater wage flexibility, reduction

[1] Report of the Director-General of the International Labour Organization on decent work, submitted to the International Labour Conference at its 87th session, June 1999, International Labour Office, Geneva, chap. I.

[2] General Assembly resolution 60/1, para. 47.

of regulations and taxes, reduction in employment, including in the public sector, dilution of bargaining power, and reduced Government expenditure in areas vital to the poor, such as health, education and social protection systems.

6. Changes in labour-market institutions and social provision have therefore increasingly limited the redistribution of economic rewards towards labour. The result of those changes has been that in many countries employment has increasingly become informal, wage shares of national incomes have declined and wage differences between skilled and unskilled labour have increased. In developed and developing countries alike, there is also an enduring trend of horizontal and vertical sex segregation in the labour market owing, among others, to gender inequalities in education, training and recruitment that are the cause of, inter alia, persistent gender wage gaps in all sectors throughout the world. All these changes and structural patterns in the labour market can be viewed as the symptoms of an acute lack of attention to achieve a balance between economic and social outcomes, reflected in the low priority that the goal of full employment and decent work currently receives in international policies, including in the design of poverty reduction strategies. Indeed, employment levels have often become incidental outcomes of market processes.

7. Effective policymaking and the implementation of employment and labour-market policies require the active engagement of employers and workers through their freely chosen and representative organizations. Sound labour-management relations and collective bargaining can also contribute to the management of change and the raising of the productive performance of enterprises and the economy as a whole. Such bipartite and tripartite approaches, known as social dialogue, can support Governments in improving the quality, relevance, timeliness and balance of public policies to promote decent and productive work.

8. Creating an environment conducive to full employment and decent work in the context of globalization has multiple implications for the three pillars of sustainable development. Insofar as employment generation contributes to economic prosperity and poverty reduction, it strengthens the economic and social pillars. With regard to the environmental dimension, it has increasingly become evident that the growing and cumulative scale of economic activities has already produced negative environmental effects with national and global ramifications. While the primary cause of environmental degradation is the unsustainable consumption and production patterns, it can also be caused by poverty. Thus, to the extent that employment strategies alleviate poverty they can support the environmental dimension of sustainable development. Moreover, new "green" technologies can also create new employment. Hence, employment creation and protection of the environment are not necessarily mutually exclusive objectives and can often be made compatible.

9. In view of the wide scope of this theme and the need to present to the Economic and Social Council a concise policy document, the present report is accompanied by a conference room paper (E/2006/CRP.2), which contains a broader and more detailed analysis of the subject.

II. Diagnostics of current trends in employment

10. According to the International Labour Organization *Global Employment Trends Brief*, at the end of 2005, the world's unemployment rate stood at 6.3 per cent, unchanged from the previous year and 0.3 percentage points higher than a decade earlier. In total, nearly 192 million people were unemployed around the world, an increase of 2.2 million since 2004 and 34.4 million since 1995. In particular, unemployment of women increased by 13.2 million from 1995, reaching 77.9 million in 2004. Almost half of the unemployed people in the world are young people, a worrisome fact given that youth make up only 25 per cent of the working-age population.[3]

11. Unemployment is a weak indicator of decent work deficits, however, for unemployment is only the tip of the iceberg of the global employment challenge, as most people in developing countries simply cannot afford to be unemployed owing to the lack of social protection. Of the over 2.8 billion workers in the world, nearly half are underemployed or, owing to low productivity and other factors, do not earn enough to lift themselves and their families above the $2 a day poverty line — just as many as 10 years ago.[3] Most work in the informal economy, which during the last decade was the main source of job growth in many developing countries. In fact, the informal economy now comprises one half to three quarters of non-agricultural employment in developing countries, typically employing more women than men. Given those trends, it is not only unemployment, but particularly underemployment and low-productive employment that are the primary challenges. The policy framework for poverty reduction therefore should focus on both employment creation and productivity growth. To that end, employment strategies should both improve the productivity of workers in dynamically growing sectors and focus on building capacity in those sectors of the economy where the majority of labour is concentrated.

12. From 1995 to 2005, there has been a drop in agriculture as a share of total employment from around 44.4 per cent to 40.1 per cent and a concomitant increase in services from 34.5 per cent to 38.9 per cent. Industrial employment held steady over the time period at 21 per cent. Those figures reflect a change in the expected pattern of development from agriculture to industry (with the typical rise in wages and living conditions) to, instead, a movement from agriculture to services, primarily in the urban informal economy. Given that three quarters of the world's poor live in rural and agricultural regions and that most new employment is generated in the informal economy, in many developing countries, working out of poverty means directing efforts towards the rural on- and off-farm sector, the informal economy and small and microenterprises in order to assist workers to move from low- to high-productivity activities.

13. In developed countries, erosion of the welfare state, cost-cutting induced by competitive pressures, the decreasing power of trade unions, deregulation in the labour market, and changes in technology and work organization have resulted in an increase in the number of part-time employees, and a rise in the number of contingent employment in temporary work agencies or through personal contracts. The precarious nature of the various forms of contingent employment makes it harder for the worker to obtain social rights and enjoy the economic protection the

[3] *Global Employment Trends Brief*, January 2006, International Labour Office, Geneva, p. 2.

social security system grants during times of economic distress. However, the strong growth in part-time employment in some countries, such as the Netherlands, often reflects a choice to combine work and family responsibilities — with positive effects on women's participation rates in the labour market.

14. There is also some evidence suggesting that the changes in labour-market policies, designed to increase flexibility, had adverse effects on real wages of low-skilled labour and hence contributed to the growth of wage inequality. Inter-industry wage inequality has also been rising in the more successful integrating economies, although real wages for both skilled and unskilled labour in manufacturing industries have been rising, improving overall labour conditions in those countries. Developing countries that remain dependent on exports of primary commodities, however, have largely been marginalized in the process of global integration. Overcoming that marginalization requires further liberalization of trade in primary commodities and a significant reduction in tariff escalation, as well as productive diversification and increased value added content of exports, including processing of primary commodities.

III. The role of macroeconomic and trade policies: national and international perspectives

15. The goal of decent work for all has to be considered in the context of the overall macroeconomic environment and can only be achieved through an integrated and coherent set of policies at the national and international levels. As such, sound macroeconomic policies and a balanced national development agenda conducive to high economic growth rates are imperative for the creation of a more favourable environment to achieve employment and poverty reduction objectives. However, while economic stability as reflected in key macroeconomic indicators is important for generating investment and economic growth, many countries have followed too stringent stabilization measures that have failed to generate the much-needed economic growth vital for job creation and poverty alleviation. Fiscal space for public expenditures should therefore be preserved, especially in situations of economic and employment stagnation and recession that may require counter-cyclical policies.

16. In addition, policies should be adopted that promote an enabling economic environment, including good governance, appropriate policy and regulatory frameworks, sound macroeconomic policies, transparency, appropriate laws for property rights, adequate infrastructure and a developed financial sector. Certain institutions are also crucial, especially effective legal systems, sound political institutions and well-functioning bureaucracies.

17. If decent and productive work for all is to be made a central goal in national economic, social and monetary policymaking, mechanisms are also needed to ensure that the employment implications of policy decisions at all levels are assessed with a view to maximizing decent work opportunities. To that end, the commitment towards employment must encompass the entire Government, and the different ministries as well as central banks must consider the employment impact of their policy choices. The participation of civil society, including trade unions and employers' associations, in the process can ensure that policies are balanced and find a broad backing with the citizenry. Countries may also consider developing

guidelines and checklists, including the setting up of a peer review process, for use by policymakers to reflect the commitment a country makes and what priority it assigns to the goal of full employment and decent work in its overall policy framework.

18. While Governments play a key role in developing a policy environment conducive to development, enhanced international cooperation in addressing macroeconomic and trade-related issues is also important. At the international level, a more balanced and coordinated strategy for sustainable global growth and full employment, including an equitable sharing among countries of the responsibility for maintaining high levels of effective demand in the global economy, is essential. To that end, the goal of decent and productive work should be made a global objective and should be pursued through coherent policies within the multilateral system. Multilateral and bilateral development cooperation institutions should ensure that employment issues feature prominently in their operations and should launch joint programmes to facilitate coherence and synergies among them.

19. Governments, on their part, should ensure that policies pursued by their countries in international forums promote a coherent integration of economic and social policies which focus on the well-being and quality of life of people. To that end, employment policies should be fully integrated into national development and growth strategies. Employment policies should also be central to poverty reduction strategy papers. In addition, decent work country programmes should figure prominently in common country assessment and the United Nations Development Assistance Frameworks.

20. Many developing countries are now competing among themselves to attract foreign investment, which can lead to the lowering of regulations, taxes, environmental protection and labour standards. Thus, there is a need to promote more transparency, coherence, as well as flexibility and policy space for countries to manage investment in a way which ensures that the benefits are realized, and the adverse effects, such as the crowding out of domestic investment, are minimized. Also required are more regional coordination and transparency of investment incentives. Public investment, particularly into labour-intensive infrastructure projects and natural resource management, is an important complementary element in that regard. It not only generates employment and growth on its own terms, but can — if well designed — attract further private investment, leading to further job creation.

21. While trade liberalization and economic integration have the potential for welfare gains in the long run, they often involve considerable adjustment costs, including job churning and deindustrialization. Phasing in trade reform carefully and ensuring that labour markets are prepared at each step can make trade policy more employment-friendly. At times, selective and temporary safeguards might be necessary as part of an industrial policy.

22. It is also important to improve developing countries' supply capacity and trade-related infrastructure in order for them to benefit from trade liberalization in a manner that stimulates employment growth. Technical support should therefore be stepped up to assist developing countries to overcome supply-side production constraints and to enable exporters to meet the requirements of international markets, including rising sanitary and phytosanitary (SPS) standards, diversify

exports and add value to commodities before exporting them. The issue of tariff escalation for processed commodities also needs to be addressed.

23. Several initiatives by the multilateral system and national donors, including the European Union, the World Trade Organization, the United Nations Conference on Trade and Development and the United Nations Development Programme, have recognized the importance of "aid for trade" to help developing countries, particularly the least developed countries, to overcome supply-side and infrastructure constraints and to cope with short-term adjustment costs. It is now important that the pronouncements to revitalize and scale up "aid for trade" become operational by the multilateral system in conjunction with donors.

24. Finally, labour migration contributes to sustaining economic activity and growth in industrialized countries, where labour forces contract owing to ageing, where there is shortage of high technology skills and where national workers shun certain sectors and occupations. International migration could play a critical role in stabilizing the labour markets of both labour importing and exporting countries if balanced, for example, against the adverse effects of the "brain drain" of skilled personnel from developing to developed countries. Emphasis should be given to policies that maximize the development benefits of migration.

IV. Labour-market challenges: balancing flexibility and social security

25. A common challenge facing integrating economies at the present time is that structural change and labour-market adjustment have become quasi-permanent features of national economies in a globalized world. Consequently, the social protection system that should accompany them has also to be institutionalized. That requires reforms of social security systems, especially regarding their aspects traditionally linked to the holding of a formal, stable job. Therefore, while the size and scope of security programmes can be adjusted depending on whether the economy is booming or in recession, a core set of policies should remain in place over the economic cycle in order for worker security to be maintained, and to allow companies the space to adapt. That, however, entails developing systems with broader and more diverse coverage, and an adequate mix of individual contributions and systemic solidarity. Social dialogue is instrumental for designing and implementing such flexibility-cum-security programmes and necessary for raising the acceptance of change.

26. While both employment protection and labour-market policies are important in providing security to workers, employment protection is often hard to maintain and layoffs tend to occur frequently. Labour-market policies can help limit the larger effects of a layoff on individual income loss and therefore on consumer spending and aggregate demand growth. By this token they enable mobility as they encourage taking on new opportunities in times of transitions and allowing firms to adjust at relatively low cost. There is no one-size-fits-all model, however, and different combinations between employment security provided at the firm level (employment protection legislation) and protection provided through the social protection system in the form of unemployment insurance and active labour-market policies, might provide flexibility with security under different conditions. Different labour-market policies therefore need to take into account the various stages of the economic

cycle, as well as different types of joblessness. Hence, policy design should be guided by a country's needs and circumstances and social and historical context, taking into account resource and capacity constraints. A meaningful social dialogue is pivotal in that regard.

27. Social protection is also a critical factor in enhancing the dynamism of the economy and the mobility of labour through guaranteed income security that stabilizes the economy during periods of recession. There are situations, however, where the State is too poor and weak to provide labour-market policies. Risk management mechanisms can then prove effective to increase the level of economic security of workers in moments of income loss. They include savings, credit both for consumption and emergency needs and for productive activities, mutual insurance, training, and public works to provide an income at times of economic slowdown or recession. Well-designed and coordinated programmes for income generation and poverty alleviation are also very important labour-market measures in developing countries. Education could also reduce the risk of unemployment.

28. Globalization and trade liberalization have also increased the need to adapt new technologies more rapidly in order to remain competitive. Poverty, illiteracy, language barriers and lack of educational opportunities hinder women more than men in accessing and using those technologies. Knowledge and skills have to be a central component of employment strategies as they determine the employability and competitiveness of the labour force and the overall investment climate of an economy. Rapidly changing skill requirements call for a comprehensive effort to increase the educational level, especially in developing countries. To enhance the employability of youth, countries may also wish to consider integrating vocational training approaches into their education systems, at the primary, secondary and tertiary levels.

29. The productive integration of youth — especially from poor households — into the labour market is relevant for present and future growth prospects, social mobility and cohesion, and the interruption of the intergenerational transmission of poverty. For those reasons, and because of young people's comparatively poor labour-market indicators, that issue has been taken into account in the Millennium Development Goals, and the United Nations Youth Employment Network has made several recommendations in that regard. A comprehensive strategy should focus on four elements: employability through investing in education and vocational training, and improving the impact of those investments; equal opportunities to give young women the same chances as young men; entrepreneurship, by making it easier to start up and run enterprises to provide more and better jobs; and placing employment creation at the centre of macroeconomic policy.[4] Policies to stimulate additional employment opportunities for young people coming into the labour market are vital, complemented by targeted measures to overcome the specific disadvantages many young people encounter in entering or remaining in the labour market. Measures should also be taken to create an enabling business environment and inform and assist young people in establishing or joining small enterprises, as well as to help young persons in the informal economy move to the formal economy. In order to mainstream youth employment into national development strategies,

[4] Letter from the Secretary-General to the President of the General Assembly transmitting the recommendations of the High-level Panel of the Youth Employment Network, document A/56/422, para. 18.

measures to enhance the employability of youth should be a key component of active labour-market policies and educational reforms.

V. Rural employment: linkages between agricultural productivity and non-farm activities

30. For many developing countries, the agricultural sector is still the main employer, especially for women, particularly in sub-Saharan Africa and South Asia. For example, in sub-Saharan Africa women contribute from 60 per cent to 80 per cent of the labour in food production both for household consumption and for sale. Non-farm activities such as agro-processing and input supply activities, however, have become increasingly important. Labour is often the only productive asset poor people own, and rural employment provides the nexus between environmental, social and economic sustainability, poverty reduction and food security. Considering that activities related to agriculture constitute a major share of the economies of developing countries, the recommended route out of poverty in rural areas is through decent employment creation but also — critically — through productivity growth in on- and off-farm activities.

31. Yet, during the past decades, there has been a period of policy neglect of the agricultural and rural sectors at the national level. Thus, there should be a resurgent focus on rural development with a view to expanding market access, employment and productivity. This is not at the expense of an equal focus on the promotion of the structural transformation of the economy to sectors of higher value addition. Rather, it is an additional focus as the working poor need to be assisted where they live and work.

32. Among the prevailing obstacles to productive and sustainable agricultural production in many countries, particularly for women, are inadequate land tenure structures and lack of secure access to resources, training and technology. In order to enhance productivity, strengthen incentives to invest in and manage land and other natural resources sustainably and reduce social disparities, including gender disparities, the rural poor should be helped to secure rights to land and access to other resources, including water, genetic resources of the forest and appropriate technology. Land reforms can be instrumental in that regard. Also, infrastructure support is pivotal for promoting improved market access, as well as for increases in both farm and non-farm productivity in rural areas. The promotion of labour-intensive approaches for building and maintenance of rural infrastructure can thereby offer new skills, employment opportunities and income for rural workers.

33. Moreover, increased access is needed to modernized information and communication technology for capacity-building so farmers can be better informed about practices, prices, access to inputs and output markets. The information gap between rural and urban areas is growing, with the potential effect of widening income differences and social disparity. The use of information and communication technologies should receive priority attention when addressing the information needs of rural areas, with a view to promoting their seamless integration into the national economy.

34. While labour-intensive approaches to productivity growth are essential, output growth is unlikely to be sustainable unless underpinned by technological change.

Some sources of labour productivity growth, however, especially capital-intensive technologies such as tractors, may increase productivity at the cost of employment, especially in the short- and medium-term. Since employment reduction in agriculture can have serious adverse implications for poverty in the short run, it is imperative to minimize those effects. As a general principle, agricultural policies in developing countries with abundant labour supply should be as employment-friendly as possible by not overemphasizing mechanization that leads to the suboptimal displacement of labour. Governments should also provide adequate social protection systems until other sectors can absorb the surplus labour.

35. Since productivity improvements will in many cases reduce agricultural labour demand, it is equally important to support the creation of productive off-farm employment, especially in rural areas. Although agriculture is still the main activity of the rural poor, around 30 per cent of total rural employment in developing countries is now found in non-farm activities. The rural non-farm sector can have positive multiplier effects for both rural employment and welfare by lowering rural unemployment or underemployment through new income generating activities as additional income leads to demand for more and new goods and services. Simultaneously, the higher income associated with productivity growth in the agricultural sector allows for the consumption of goods and services produced in the rural non-farm sector, thereby creating a virtuous cycle of productivity and employment growth. Considering the positive interaction between rural on- and off-farm economic activities and the importance of productive diversification for rural employment generation and growth, Governments should proactively facilitate the development of productive and remunerative non-farm activities as means to create employment and to deepen linkages between the agricultural sector and the broader economy. In addition to formal education, vocational training is important in providing specialized skills for business development.

36. Rural non-farm incomes also allow households to overcome credit and risk constraints on agricultural innovation, permitting crucial farm investments to raise productivity and increase farm incomes. Group strategies, such as producer groups and women's self-help groups, can thereby help address credit and market constraints and overcome existing asymmetries in the distribution of social capital. Women in particular tend to lack access to credit and the collateral needed for taking loans. Access to financial services can also help the rural poor reduce their vulnerability and widen their economic opportunities through small productive investments, enabling them to build assets over time. In rural areas there is thus a need to expand lending beyond microcredit to meet the needs of the agricultural cycle and for investment in small productivity-enhancing activities and equipment. While the successes of microcredit are well recognized, the provision of safe and flexible savings products, secure transfer and remittance facilities, and insurance services are often as important as access to loans.

37. Promoting a better functioning rural labour market is also of particular importance given that the majority of rural households participate in the labour market by hiring out their labour permanently or on a temporary basis. Job placement mechanisms should be improved through better information, incentives, and reduction of segmentation, so as to reduce transaction costs, especially aiming at increasing access for the most vulnerable.

38. Official development assistance is an important means for developing countries, particularly the least developed countries, to augment public investments in such areas as human capital development in rural areas, rural infrastructure and agricultural research, which normally do not attract private sector investment. While acknowledging the need for national ownership of policies, there is a need for increased national and international funding for rural employment generation targeted at productive sector development, taking into account overall national priorities. Aid flows under multi-annual budgets could also help mitigate employment impacts of external and exogenous shocks.

39. In light of the negative effects of agricultural trade distortions on local producers in developing countries, however, it is imperative that any international strategy towards employment generation in the agricultural sector should address, especially through the Doha round of trade negotiations, issues of agricultural trade, market access and reduction of trade barriers. This should also take fully into account the special needs of the least developed countries arising from preference erosion, price shifts and increased market competition. In addition, efforts are required to minimize the effects of fluctuations in commodity prices and terms of trade for agricultural commodities, which have been declining for developing countries by close to 50 per cent over the past 40 years.

VI. The role of small and medium enterprises and industrialization

40. Creating off-farm employment opportunities in rural areas while increasing agricultural productivity is indispensable, but it cannot substitute for a long-term strategy to create jobs, especially in urban areas, by means of sustainable industrial and modern service sector development, including information and communication technology and tourism. It is therefore important to ensure a balance between the needs of rural and other disadvantaged areas, where the majority of the poor live, and the need to ensure a sustainable urban industrial base. Industrialization has a critical role to play in helping developing countries to raise growth rates through industrial upgrading and productivity gains, and to generate sustainable employment and higher incomes to lift people out of poverty. Governments should therefore design effective industrial policies in areas of potential comparative advantage. To that end, they should create an enabling environment in terms of infrastructure requirements and access to support services if countries are to upgrade their productivity and to access new markets. Backward and forward production linkages can be particularly beneficial to the development of small and medium enterprises and, consequently, to employment generation.

41. Small and medium enterprises can be considered the springboard to a strong industrial sector. In most developing countries, however, more than 90 per cent of small and medium enterprises are microenterprises or small enterprises with less than 10 workers, most of them operating in an informal setting without legal recognition or registration. In fact, small enterprises remain the major providers of work to the increasing workforce. Decent work deficits in these mostly informally operating enterprises are particularly pervasive in terms of remuneration, security against income loss, social protection, rights at work and social dialogue.

42. Value addition by small enterprises operating in the informal economy remains low, largely owing to their inability to upgrade themselves in terms of business practices, technology and skills and thus benefit from market opportunities. In the short term, priority should be given to raising productivity and improving the wages and working conditions of those informally employed by providing access to affordable credit, exposure to information on markets and new technology, and by allowing the organization and representation of informal workers. Improved market access for informal producers and steps towards the recognition of de facto property rights by Governments are also vital steps in the transformation of the informal economy. Also, the community and its stakeholders should work with small enterprises and their workers in improving the infrastructure and living environment, which has a direct impact on working conditions, and in providing better social protection through various schemes.

43. In light of the large informal economy in many developing countries, particularly in Africa, serious considerations should be given to developing the institutional capacities necessary for gradually formalizing informal economies in order to extend the outreach of social protection and other benefits of decent work to all. Efficient and effective government is essential to encourage entrepreneurship, improve the access of workers to social protection and strengthen the supervisory system to ensure the observation of protection norms.

44. Women are generally over-represented in the informal economy and disproportionately active in the lower end of microenterprises with consequent low income owing to pervasive discrimination in labour markets. Considering the important contribution that women entrepreneurs can make to employment and the economic growth of their countries, there is a need to promote and support women's self-employment and the development of small enterprises, and the strengthening of women's access to finance, technology and training through the scaling up of institutions dedicated to promoting women's entrepreneurship, including non-traditional and mutual credit schemes, as well as innovative linkages with financial institutions. Particular efforts should also be made to involve women representatives of the informal economy in the policy process, with a view to formulating more appropriate regulations that take into account their need to balance productive and reproductive roles and responsibilities.

45. In most developing countries, the small and medium enterprise sector is affected by poor market access, scarcity of intermediate suppliers and fierce domestic competition. Therefore, in the presence of wide and persistent productivity differences with large firms, policies are needed that shift resources to the sector in order to make it more productive and remunerative with protection and rights for workers. To that end, it is essential to upgrade workers' and entrepreneurs' respective skills, taking fully into account demand in the labour market. Business practices should be modernized, and opportunities for networking and linkages should be facilitated. Public institutions, in collaboration with the private sector, should facilitate such opportunities. Direct assistance through business development services can also help correct major market failures and increase chances of survival for small and medium enterprises and opportunities for them to compete.

46. In addition there should be a credit market that functions for entrepreneurs, even to the most disenfranchised. Thus, consideration should be given to the creation of new types of financial intermediaries for small firms. Commercial banks

should be encouraged to lend to small and medium enterprises. Central banks and designated financial service regulators must play a proactive role in that regard, by integrating the objective of increasing access of small and medium enterprises to financial services into regulatory and supervisory policies.[5] Governments and central banks might also consider a set of special measures for small and medium enterprises, such as guarantee programmes, more user-friendly and transparent disclosure systems, and information technology-driven appraisal systems, to reduce the risk perceived by banks.

47. Competitive challenges pose a particular difficulty for small enterprises if they are acting alone to access the market served by larger enterprises as well. Hence, when they benefit from linkages to larger enterprises in terms of accessing the market, resources, or technology, globalization can present tremendous opportunities for small enterprises. To that end, the private sector, particularly the lead firms of global and national supply chains, should help their small and medium enterprise suppliers to upgrade in order to raise their value added content and to improve their level of quality and reliability in carrying out business activities. It is essential that Governments and institutions encourage and facilitate such mutually beneficial supply chain linkages by providing an inclusive industrial policy framework and by encouraging lead firms' participation in voluntary agreements. Respect for the 1998 International Labour Organization Declaration on Fundamental Principles and Rights at Work should be strengthened in all countries, as they provide a minimum set of rules for labour in the global economy.

48. Although supply chain linkages can provide opportunities for accessing markets and benefiting from economies of scale, there is need to ensure that small and medium enterprises are able to truly benefit from such linkages. Inter-firm cooperation, in the form of business clusters, can provide effective alternatives to supply chain linkages that can help small and medium enterprises to overcome their traditional weaknesses of isolation, and lack of economies of scale and scope. An institutional approach to mainstream the working poor in the dynamic growth trajectories of non-farm income is through upgrading of small and medium enterprise clusters. Policy interventions should thereby aim to revitalize clusters with high growth potential, transferring workers from moribund to modern clusters, or developing new competitive clusters.

49. Also, business relationships between informal entrepreneurs and small enterprises in the formal economy with further linkages to larger enterprises can help expanding informal actors' ability to access resources and markets. Small and medium enterprises in the informal economy can thereby gain legitimacy and formality in their business transactions. Such complementarities among small enterprises, both in the formal and informal setting, can be accomplished through alliance building in the form of trade associations, cooperatives or self-help groups for specific purposes.

[5] *Building Inclusive Financial Sectors for Development*, "Blue Book", United Nations Department of Economic and Social Affairs and United Nations Capital Development Fund, 2006. Advance version available at www.uncdf.org/bluebook/.

VII. Impact on sustainable development

50. Sustainable development rests on three pillars — economic, social and environmental — and, to the extent that employment creation contributes to poverty reduction and economic prosperity, it clearly strengthens the first two pillars. With respect to the third, it has been argued that the pressure to sustain competitiveness, to which countries are being increasingly subjected, may prevent Governments from taking steps to internalize environmental costs and improve environmental performance if this entails higher costs for domestic producers. Employment creation and protection of the environment are not necessarily mutually exclusive objectives, however, and can often be made compatible. For instance, under certain conditions, eco-tax reform may be able to boost employment creation and environmental protection simultaneously — the so-called double dividend. The challenge is to develop policies for economic growth and poverty reduction that can absorb large numbers of workers, especially in resource-scarce areas, protect natural resources and are at the same time environmentally sound.

51. In industrialized countries, businesses are increasingly coming under pressure from consumers to improve the environmental characteristics of their products and processes. Consumer habits and demands have started to turn environmental excellence into new markets and a new factor of competitiveness among firms and products, and the same is true of environmental assessment of the entire product life cycle. Environmental performance is not just important for firms' marketing efforts, but has also become a relevant factor in capital markets, which can reward — or penalize — the environmental conduct of firms. The challenge now is to implement innovative strategies such as private voluntary initiatives to mainstream concerns about environmental quality, resource use, and social equity into consumption decisions along with prices. At the national level, macroeconomic policies, as well as sector-specific development policies, can encourage the emergence of new economic initiatives compatible with sustainable development — for example, through incentives promoting more sustainable consumption and production patterns. The encouragement of new non-polluting sectors, especially services and the production of environmentally friendly products, can contribute to converting economic activities towards job creation in environmentally sustainable sectors.

52. In that context, sustainable and organic farming, which are labour-intensive but not input-intensive are showing promise for rural poverty reduction in developing countries in view of the premium prices obtained for those products in advanced urban and developed country markets. The successful use of sustainable technologies, however, is also conditional on significant policy and institutional reforms that ensure equitable access to land, markets, credit, extension, education and infrastructure. Also, substantial trade barriers in developed markets exist, impeding on the achievement of that potential. The combination of fair trade, which guarantees higher revenues for small-scale producers in developing countries, and organic labelling, could offer further opportunities. At the same time, technical support in the area of testing and standards and in market development can enable producers using sustainable practices to be able to market their goods.

53. Insofar as foreign firms tend to employ cleaner technologies in their production processes, foreign direct investment may have positive implications for the environment. The recent wave of technological innovation, represented by new cleaner production technologies, low-emissions transport technologies, energy

efficiency technologies and renewable sources, and the new markets to which they have given rise, will be of particular importance in that regard. Measures should be taken to encourage the diffusion of new cleaner production processes and technologies from the lead firms through each country's production chains. While such measures would generate employment, they would also support the objectives of sustainable development. To that end, countries should make the introduction and diffusion of clean technology an integral part of trade and foreign direct investment strategies, combining environmental impact assessments for new investments with policies that promote environmentally sustainable consumption and production patterns. Providing financial assistance on softer terms to small enterprises to phase out polluting machinery and chemicals, and invest in more efficient and non-polluting technology or production processes should also be considered as a policy option. The establishment of cleaner production centres to disseminate information and promote local technological development and pilot projects in different sectors is another line of action that could be pursued towards those objectives.

54. For developing countries, research and development in ecological technologies, ecotourism, natural resource management, organic agriculture and infrastructure creation and maintenance provide opportunities for decent work that protect and restore the environment. Community-managed facilities favouring sustainable tourism are flourishing in many places, and countries such as Costa Rica have successfully developed a tourism industry with a reputation for sustainable development.

55. Also, the potential to shift away from non-renewable energy sources to renewable fuels based on labour-intensive agricultural production could have significant positive consequences for employment, especially in rural areas, while ensuring a sustainable development path. Brazil, for example, succeeded already in the 1970s in launching a major programme of sugar cane ethanol substitution for oil. Recently, it started a bio-diesel programme that has a good chance of rapid expansion. At present, ethanol, extracted from sugar cane grown on 1.8 million hectares, provides over 35 per cent of the country's automobile fuels. In that regard, application of various economic instruments on energy products in accordance with associated environmental damages could assist a shift to cleaner sources of energy. In designing taxes or other economic instruments, care should be taken to assess the overall welfare effect on different social groups and the impact on productive factors, bearing in mind interaction with other existing taxes.

56. An unremitting effort is needed to inform and educate all actors, so that the goals of employment generation within a sustainable development framework are a priority on the political agenda. The United Nations Global Compact, a voluntary corporate citizenship initiative, is an important step in that regard. Progress in meeting sustainable development goals can only be made if the public is informed and civil society is proactive in the pursuit of its right to live in a healthy environment and an economically prosperous and inclusive society. Social dialogue is an essential means of developing and implementing strategies which balance the economic, social and environmental pillars of sustainable development at local, enterprise, national and global levels.

VIII. Conclusion

57. The present report has emphasized the urgent need to make decent work a global goal, a need fully recognized by the world community as a result of the outcome document of the World Summit in September 2005. In the light of large numbers of unemployed and an even larger number of "working poor", the double challenge is to increase both the rate of economic growth and the employment content of growth. The prevalence of working poverty in the developing world thereby underlines the importance of creating employment that is sufficiently productive to yield a decent income. For that reason, both employment and productivity growth must be jointly pursued. A strategy for increasing productivity and employment over the long run should therefore have two components: investing in the dynamically growing sectors of the economy, while building capacity in sectors where the majority of labour is employed, and establishing linkages between the two. In the context of globalization, countries should devise policies that enable them to pursue both economic efficiency and social security, allowing flexibility for firms and protection for workers. Social dialogue is instrumental for designing and implementing such flexibility-cum-security programmes and is necessary for raising acceptance to change.

58. To advance towards the goals of full and productive employment and decent work for all, the following framework should be pursued:

- **At the national level, Governments should make a political commitment to achieve full and productive employment and decent work for all.**
- **Employment as a policy goal should be fully integrated into national development and growth strategies. To that end, Governments should work towards greater coherence between sectoral and macroeconomic policies and adopt integrated strategies for employment generation at national, regional and local levels.**
- **The goal of decent and productive work for all should be made a global objective and be pursued through coherent policies within the multilateral system in order to enhance macroeconomic and trade-related international cooperation and to arrive at a more balanced and coordinated strategy for sustainable global growth and full employment, including through greater market access, development assistance, technology transfer and support for development of institutional capacities, as well as an equitable sharing among countries of the responsibility for maintaining high levels of effective demand in the global economy.**
- **There is a need for continuing efforts towards and focus on the goal of creating decent employment. To that end, the Economic and Social Council may wish to consider launching a decade for full and productive employment and decent work for all.**